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Legend:

Taxpayer =

Subsidiary =

Company =

Foreign Parent =

Foreign Country =

Dear :

This letter is in response to the letter submitted by Taxpayer's authorized representatives in which a ruling was requested regarding the conformity requirements of sections 472(c), 472(e), and 472(g) of the Internal Revenue Code. Specifically, the ruling requested is that the proposed issuance by Taxpayer of financial statements and supplemental information, which contains disclosures of Subsidiary's income on a last-in, first-out ("LIFO") and non-LIFO basis, to Taxpayer's shareholders and creditors, including its foreign parent, Foreign Parent, is not a LIFO conformity violation under I.R.C. §§ 472(c), (e), and (g) and the regulations thereunder.

Taxpayer, a newly-formed limited liability company, treated as a U.S. corporation for U.S. federal tax purposes, is the common parent of an affiliated group of corporations that file a consolidated federal income tax return on a calendar year basis. Taxpayer is wholly owned by Company, a foreign corporation, which is a lower-tier subsidiary of

Foreign Parent. Subsidiary, also a U.S. corporation, is a wholly-owned subsidiary of Taxpayer and is a member of Taxpayer's consolidated group. Subsidiary uses the LIFO method to account for its inventory for U.S. federal income tax purposes. Foreign Parent is a corporation organized under the laws of Foreign Country.

Taxpayer proposes to issue reviewed (as opposed to audited) consolidated financial statements as follows: On the income statement the gross margin, earnings before interest and taxes, earnings before taxes, and net income of Subsidiary will be reported on a LIFO basis.

On the balance sheet, inventory and total equity will be reported on a non-LIFO basis. In the equity section of the balance sheet, retained earnings will be reported on a LIFO basis and other comprehensive income will include a LIFO offset. Other comprehensive income will be reported as a single line item. A breakdown of other comprehensive income will not appear on the face of the balance sheet, but will appear in a footnote to the financial statements labeled as "Supplemental Information – Detail of Changes in Equity." All footnotes to the financial statements will be presented together and will accompany the income statement in a single report.

On the statement of changes in equity, total equity will be reported on a non-LIFO basis. Retained earnings and net income will be reported on a LIFO basis. The change in other comprehensive income, which includes the LIFO offset, will be reported as a single line item in the calculation of total equity instead of presenting the components of other comprehensive income as separate line items.

Section 472(c) of the Code provides that a taxpayer that elects to use the LIFO inventory method for federal income tax purposes must establish to the satisfaction of the Commissioner that it has used no method other than LIFO in inventorying goods specified in its LIFO election to ascertain income, profit, or loss for the first taxable year for which the method is to be used, for the purpose of a report or statement covering such taxable year to shareholders, partners, or other proprietors, or to beneficiaries, or for credit purposes.

Section 472(e) provides:

If a taxpayer, having complied with subsection (a), uses the method described in subsection (b) for any taxable year, then such method shall be used in all subsequent taxable years unless--

(1) with the approval of the Secretary a change to a different method is authorized; or,

(2) the Secretary determines that the taxpayer has used for any such subsequent taxable year some procedure other

than that specified in paragraph (1) of subsection (b) in inventorying the goods specified in the application to ascertain the income, profit, or loss of such subsequent taxable year for the purpose of a report or statement covering such taxable year (A) to shareholders, partners, or other proprietors, or beneficiaries, or (B) for credit purposes; and requires a change to a method different from that prescribed in subsection (b) beginning with such subsequent taxable year or any taxable year thereafter.

If paragraph (1) or (2) of this subsection applies, the change to, and the use of, the different method shall be in accordance with such regulations as the Secretary may prescribe as necessary in order that the use of such method may clearly reflect income.

Section 472(g) provides that all members of the same group of financially related corporations are treated as a single taxpayer for purposes of sections 472(c) and (e)(2). The term “group of financially related corporations” means any affiliated group as defined in section 1504(a), determined by substituting “50” percent for 80 percent each place it appears, and any other group of corporations that consolidate or combine for purposes of financial statements.

Section 1.472-2(e)(1) of the Income Tax Regulations provides, in part:

The taxpayer must establish to the satisfaction of the Commissioner that the taxpayer, in ascertaining the income, profit, or loss for the taxable year for which the LIFO inventory method is first used, or for any subsequent taxable year, for credit purposes or for purposes of reports to shareholders, partners, or other proprietors, or to beneficiaries, has not used any inventory method other than that referred to in § 1.472-1 or at variance with the requirement referred to in § 1.472-2(c).

Section 1.472-2(e)(1)(i) provides that the taxpayer’s “use of an inventory method other than LIFO for purposes of ascertaining information reported as a supplement to or explanation of the taxpayer’s primary presentation of the taxpayer’s income, profit, or loss for a taxable year in credit statements or financial reports” is not considered at variance with the requirements of § 1.472-2(e)(1).

Section 1.472-2(e)(1)(ii) provides that the “use of an inventory method other than LIFO to ascertain the value of the taxpayer’s inventory of goods on hand for purposes of reporting the value of such inventories as assets” is not considered at variance with the requirements of § 1.472-2(e)(1).

Section 1.472-2(e)(4) provides:

Under paragraph (e)(1)(ii) of this section, the use of an inventory method other than LIFO to ascertain the value of the taxpayer's inventories for purposes of reporting the value of the inventories as assets is not considered the ascertainment of income, profit, or loss and therefore is not considered at variance with the requirement of paragraph (e)(1) of this section. Therefore, a taxpayer may disclose the value of inventories on a balance sheet using a method other than LIFO to identify the inventories, and such a disclosure will not be considered at variance with the requirement of paragraph (e)(1) of this section. However, the disclosure of income, profit, or loss for a taxable year on a balance sheet issued to creditors, shareholders, partners, other proprietors, or beneficiaries is considered at variance with the requirement of paragraph (e)(1) of this section if such income information is ascertained using an inventory method other than LIFO and such income information is for a taxable year for which the LIFO method is used for Federal income tax purposes. Therefore, a balance sheet that discloses the net worth of a taxpayer, determined as if income had been ascertained using an inventory method other than LIFO, may be at variance with the requirement of paragraph (e)(1) of this section if the disclosure of net worth is made in a manner that also discloses income, profit, or loss for a taxable year.

However, a disclosure of income, profit, or loss using an inventory method other than LIFO is not considered at variance with the requirement of paragraph (e)(1) of this section if the disclosure is made in the form of either a footnote to the balance sheet or a parenthetical disclosure on the face of the balance sheet. In addition, an income disclosure is not considered at variance with the requirement of paragraph (e)(1) of this section if the disclosure is made on the face of a supplemental balance sheet labelled as a supplement to the taxpayer's primary presentation of financial position, but only if, consistent with the rules of paragraph (e)(3) of this section, such a disclosure is clearly identified as a supplement to or explanation of the taxpayer's primary presentation of financial income as reported on the face of the taxpayer's income statement.

Section 1.472-2(e)(3) provides specific rules relating to the exception to the conformity requirement for supplemental or explanatory information.

Section 1.472-2(e)(3)(i) provides:

Information reported on the face of a taxpayer's financial income statement for a taxable year is not considered a supplement to or

explanation of the taxpayer's primary presentation of the taxpayer's income, profit, or loss for the taxable year in credit statements or financial reports. For purposes of paragraph (e)(3) of this section, the face of an income statement does not include notes to the income statement presented on the same page as the income statement, but only if all notes to the financial income statement are presented together.

Section 1.472-2(e)(3)(ii) provides, in part:

Information reported in notes to a taxpayer's financial income statement is considered a supplement to or explanation of the taxpayer's primary presentation of income, profit, or loss for the period covered by the income statement if all notes to the financial income statement are presented together and if they accompany the income statement in a single report.

Section 1.472-2(e)(3)(iii) provides, in part:

Information reported in an appendix or supplement to a taxpayer's financial income statement is considered a supplement to or explanation of the taxpayer's primary presentation of income, profit, or loss for the period covered by the income statement if the appendix or supplement accompanies the income statement in a single report and the information reported in the appendix or supplement is clearly identified as a supplement to or explanation of the taxpayer's primary presentation of income, profit, or loss as reported on the face of the taxpayer's income statement ...

For purposes of paragraph (e)(3)(iii) of this section, information is considered to be clearly identified as a supplement to or explanation of the taxpayer's primary presentation of income, profit, or loss as reported on the face of the taxpayer's income statement if the information either--

- (A) Is reported in an appendix or supplement that contains a general statement identifying all such supplemental or explanatory information;
- (B) Is identified specifically as supplemental or explanatory by a statement immediately preceding or following the disclosure of the information;
- (C) Is disclosed in the context of making a comparison to corresponding information disclosed both on the face of the

taxpayer's income statement and in the supplement or appendix; or

(D) Is a disclosure of the effect on an item reported on the face of the taxpayer's income statement of having used the LIFO method.

For example, a restatement of cost of goods sold based on an inventory method other than LIFO is considered to be clearly identified as supplemental or explanatory information if the supplement or appendix containing the restatement contains a general statement that all information based on such inventory method is reported in the appendix or supplement as a supplement to or explanation of the taxpayer's primary presentation of income, profit, or loss as reported on the face of the taxpayer's income statement.

Under § 472(g), Taxpayer and Subsidiary are treated as a single taxpayer for purposes of the LIFO conformity requirement contained in §§ 472(c) and (e)(2). Consequently, since Subsidiary's inventory is accounted for using the LIFO method for U.S. federal income tax purposes, Taxpayer is subject to the LIFO conformity requirements in §§ 472(c) and (e)(2) and the regulations thereunder.

On Taxpayer's proposed income statement, the gross margin, earnings before interest and taxes, earnings before taxes, and net income of Subsidiary will be reported on a LIFO basis. Taxpayer's proposed income statement reporting Subsidiary's income, profit, or loss on a LIFO basis is in accordance with § 1.472-2(e)(1) and does not violate the LIFO conformity requirements.

On the balance sheet, inventory will be reported on a non-LIFO basis. Taxpayer's proposed balance sheet reporting the value of Subsidiary's inventories as assets on a non-LIFO basis is allowed under § 1.472-2(e)(1)(ii) and does not violate the conformity requirement.

In the equity section of the balance sheet, total equity will be reported on a non-LIFO basis; however, retained earnings will be reported on a LIFO basis and other comprehensive income will include a LIFO offset. Other comprehensive income will be reported as a single line item. A breakdown of other comprehensive income will not appear on the face of the balance sheet, but will appear in a footnote to the financial statements labeled as "Supplemental Information – Detail of Changes in Equity." All footnotes to the financial statements will be presented together and will accompany the income statement in a single report. Under § 1.472-2(e)(4), the disclosure of net worth on a non-LIFO basis "may be at variance with the requirement of paragraph (e)(1) of this section if the disclosure of net worth is made in a manner that also discloses income, profit, or loss for a taxable year." However, § 1.472-2(e)(4)

also provides that “a disclosure of income, profit, or loss using an inventory method other than LIFO is not considered at variance with the requirement of paragraph (e)(1) of this section if the disclosure is made in the form of either a footnote to the balance sheet or a parenthetical disclosure on the face of the balance sheet.” This proposed reporting is allowed under § 1.472-2(e)(4) and does not violate the conformity requirement.

On the statement of changes in equity, total equity will be reported on a non-LIFO basis. Retained earnings and net income will be reported on a LIFO basis. The change in other comprehensive income, which includes the LIFO offset, will be reported as a single line item in the calculation of total equity instead of presenting the components of other comprehensive income as separate line items. As with Taxpayer’s proposed reporting of net equity on the balance sheet, this proposed reporting is allowed under § 1.472-2(e)(4) and does not violate the conformity requirement.

Based upon the facts submitted, and the representations made by Taxpayer, it is ruled that, for federal income tax purposes, Taxpayer’s proposed financial statements and supplemental information, as described in this ruling letter, which contain disclosures of Subsidiary’s income on a LIFO and non-LIFO basis, to Taxpayer’s creditors and shareholders, including Foreign Parent, are not a LIFO conformity violation under §§ 472(c), (e), (g), and the regulations thereunder.

As provided under § 1.472-3(d), whether or not the LIFO method, once adopted, may be continued, and the propriety of all computations incidental to the use of such method, will be determined by the Commissioner in connection with the examination of the taxpayer’s income tax returns. Accordingly, this letter should not be construed as a ruling as to whether Taxpayer’s or Subsidiary’s use of the LIFO inventory method and relevant computations are in accordance with § 472 and regulations thereunder.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,

Roy A. Hirschhorn
Chief, Branch 6
(Income Tax & Accounting)

cc: